

**CITY OF WATSONVILLE**

**SINGLE AUDIT REPORT**  
For the Fiscal Year Ended  
June 30, 2012

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For the Fiscal Year Ended June 30, 2012

**SINGLE AUDIT REPORT**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and City Council  
of the City of Watsonville  
Watsonville, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watsonville (City), California as of and for the fiscal year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned costs to be a significant deficiency (2012-1).

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting, that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
January 28, 2013



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council  
City of Watsonville,  
Watsonville, California

Compliance

We have audited the City of Watsonville's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Watsonville's major federal programs for the fiscal year ended June 30, 2012. The City of Watsonville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Watsonville's management. Our responsibility is to express an opinion on the City of Watsonville's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Watsonville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Watsonville's compliance with those requirements.

In our opinion, the City of Watsonville, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of Watsonville is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Watsonville's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Watsonville's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watsonville as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated January 28, 2013, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements, taken as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other auditing procedures applied in the audit of the financial statements. The information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the audit committee, management, City Council, others within the City, and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
January 28, 2013

**CITY OF WATSONVILLE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For The Fiscal Year Ended June 30, 2012

<u>Federal Grantor/ Pass - Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Program Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development:</b>			
Direct Programs			
Community Development Block Grant / Entitlement Grant	14.218	B-11-MC-06-0052	\$ 1,214,654 *
Home Investment Partnership Program	14.239	11-Home-7660	56,912
Total U.S. Department of Housing and Urban Development			<u>1,271,566</u>
<b>U.S. Department of Homeland Security:</b>			
Passed Through California Office of Emergency Services			
Homeland Security Grant Program	97.067	2010-0071	69,836
Total U.S. Department of Homeland Security			<u>69,836</u>
<b>U.S. Department of Justice:</b>			
Direct Programs:			
Edward Byrne Justice Assistance Grant Program	16.738	2010-DJ-BX-0753	61,160
Bulletproof Vest Partnership Program	16.607	N/A	5,203
ARRA - Public Safety Partnership and Community Policing Grants	16.710	N/A	331,153 *
ARRA - Recovery Act - Edward Byrne Memorial Competitive Grant Program	16.808	2009SCB90056	139,691
Passed-Through California Department of Corrections and Rehabilitation			
Juvenile Accountability Block Grants	16.523	CSA#389-11	33,602
Project Safe Neighborhoods	16.609	US10038410	19,037
Total U.S. Department of Justice			<u>589,846</u>
<b>U.S. Department of Transportation:</b>			
Office of Federal Administration			
Airport Improvement Program	20.106	API No. 3-06-0272-11	9,025
Total U.S. Department of Transportation			<u>9,025</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			
			<b><u>\$ 1,940,273</u></b>

\* Denotes major program

The note to the schedule of expenditures of federal awards is an integral part of this statement.

**CITY OF WATSONVILLE**

**NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2012

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Watsonville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the City's basic financial statements.

## **FINDINGS AND RECOMMENDATIONS**

**CITY OF WATSONVILLE**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
For the Fiscal Year Ended June 30, 2012

**Section 1 – Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued	Unqualified		
Internal control over financial reporting	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X <input type="checkbox"/> No
Material weaknesses identified?			
Significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> X	Yes	<input type="checkbox"/> None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X <input type="checkbox"/> No

*Federal Awards*

Internal control over major programs:	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X <input type="checkbox"/> No
Material weaknesses identified?			
Significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X <input type="checkbox"/> None reported
Type of auditors' report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section .510 (a)	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X <input type="checkbox"/> No

Identification of major programs:

CFDA Number  
14.218  
16.710

Name of Federal Program or Cluster  
Community Development Block Grant  
ARRA – Public Safety Partnership and  
Community Policing Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualifies as low-risk auditee?

X Yes  No

**CITY OF WATSONVILLE**

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)**

For the Fiscal Year Ended June 30, 2012

**Section II — Financial Statement Findings and Questioned Costs**

**2012-1 Finding – Compensated Absences**

We noted the compensated absences accrual of certain personnel was over accrued when compared to the City policy.

**Effect:**

The City retains a liability in excess of City policy limits which, in addition, requires cash to liquidate in tight cash times.

**Recommendation:**

We recommend compliance with City compensated absence policy and to reduce this excess compensated absence liability as cash permits. This could require a quarterly analysis of compensated absences to reduce the risk of compensated absence over accruals in excess of City policy.

**Management's response:**

The City of Watsonville agrees with this finding and is implementing a review process by which human Resource staff is working with department heads and individual staff in an attempt to reduce vacation time below the approved level for all city employees.

**CITY OF WATSONVILLE**

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)**

For the Fiscal Year Ended June 30, 2012

**Section III — Federal Award Findings and Questioned Costs**

There were no federal award findings or questioned costs.

**CITY OF WATSONVILLE**

**SCHEDULE OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS**

For the Fiscal Year Ended June 30, 2012

**Section IV — Federal Award Findings and Questioned Costs**

There were no prior year findings or questioned costs.